

Message Text

CONFIDENTIAL

PAGE 01 JAKART 03658 211034Z
ACTION EA-12

INFO OCT-01 ISO-00 SSO-00 SS-15 PM-05 SP-02 INR-10
L-03 EB-08 INRE-00 /056 W
-----069658 211037Z /11
O 210828Z MAR 78
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC IMMEDIATE 7586

C O N F I D E N T I A L JAKARTA 3658

STADIS////////////////////////////////////

FOR DAS HEGINBOTHAM FROM AMBASSADOR

E.O. 11652: GDS
TAGS: ENRG, ID
SUBJECT: IRS RULING AND VICE PRESIDENT'S VISIT

1. AS YOU KNOW, THERE ARE TWO ISSUES IN OUR RELATIONS WITH INDONESIA WHICH ARE PARTICULARLY IRRITATING TO THE GOI AND MATTERS OF CONSIDERABLE CONCERN AMONG SENIOR MINISTERS AS WELL AS PRESIDENT SUHARTO HIMSELF. THE FIRST, THE LNG PRICE ESCALATOR CLAUSE, IS NOT LIKELY TO BE RESOLVED IN TIME FOR THE VICE PRESIDENT'S VISIT, BUT YOU SHOULD BE AWARE THAT DOE/ERA ADMINISTRATOR BARDIN'S APPARENT TOUGH STANCE ON THE PRICE ESCALATOR DURING THE LAST MEETING IN WASHINGTON HAS CREATED REAL CONCERN HERE OVER WHAT INDONESIANS REGARD AS OUR LACK OF FLEXIBILITY IN TRYING TO RESOLVE THIS LONG-FEASTERING PROBLEM. A PROTRACTED STALEMATE AND POSSIBLE CANCELLATION OF THE PAC-INDO CONTRACTS BY THE INDONESIANS REMAIN REAL POSSIBILITIES. ANY POSSIBLE INDICATION OF GREATER FLEXIBILITY ON OUR PART BEFORE THIS VISIT WOULD BE MOST USEFUL.

2. THE SECOND MATTER, PUBLICATION OF THE IRS TAX RULING, IS ONE U.S. ACTION WHICH I STRONGLY FEEL CAN AND SHOULD TAKE PLACE BEFORE THE VICE PRESIDENT ARRIVES. INDONESIAN
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AND OUR OWN EXPECTATIONS, BASED ON INFORMATION WHICH WE, PERTAMINA, AND THE COMPANIES HAD RECEIVED FROM WASHINGTON, WERE THAT THE RULING WOULD BE PUBLISHED QUITE EARLY IN 1978. CONTINUOUS DELAY BY IRS AND TREASURY IS SIMPLY NOT UNDERSTOOD BY THE LOCAL OFFICIALDOM, SOME OF WHOM ARE GETTING QUITE CONCERNED THAT SOMETHING SINISTER MAY LIE BEHIND THE DELAY. I HAVE HEARD IN FACT THAT SOME

OFFICIALS SPECULATE THAT THE USG IS INTENTIONALLY DELAYING PUBLICATION PENDING THE OUTCOME OF THIS WEEK'S PRESIDENTIAL ELECTION AND PARLIAMENTARY SESSION. WHILE THIS IS OBVIOUSLY AN INCORRECT INTERPRETATION, IT DOES DRAMATIZE THE HIGH DEGREE OF SENSITIVITY IN THE GOI.

3. PROBABLY YOU HAVE ALREADY THOUGHTABOUT GIVING THESE MATTERS A HIGH-LEVEL PUSH. I WOULD URGE THAT THE DEPARTMENT DO SO BEFORE THE VICE PRESIDENT'S VISIT. IT WOULD CERTAINLY ENHANCE THE ATMOSPHERE IN WHICH THE VISIT TAKES PLACE AND ERASE ANY DOUBTS THAT THE USG IS STALLING ON ISSUES IMPORTANT TO FUTURE OIL EXPLORATION IN THIS COUNTRY.
MASTERS

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LPG, VICE PRESIDENT, NEGOTIATIONS, PRICES, TAXES, VISITS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 mar 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978JAKART03658
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780124-0079
Format: TEL
From: JAKARTA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780344/aaaabkok.tel
Line Count: 76
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 1ad660c3-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3258929
Secure: OPEN
Status: NATIVE
Subject: IRS RULING AND VICE PRESIDENT'S VISIT
TAGS: ENRG, OVIP, EFIN, ID, (MONDALE, WALTER F)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/1ad660c3-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014